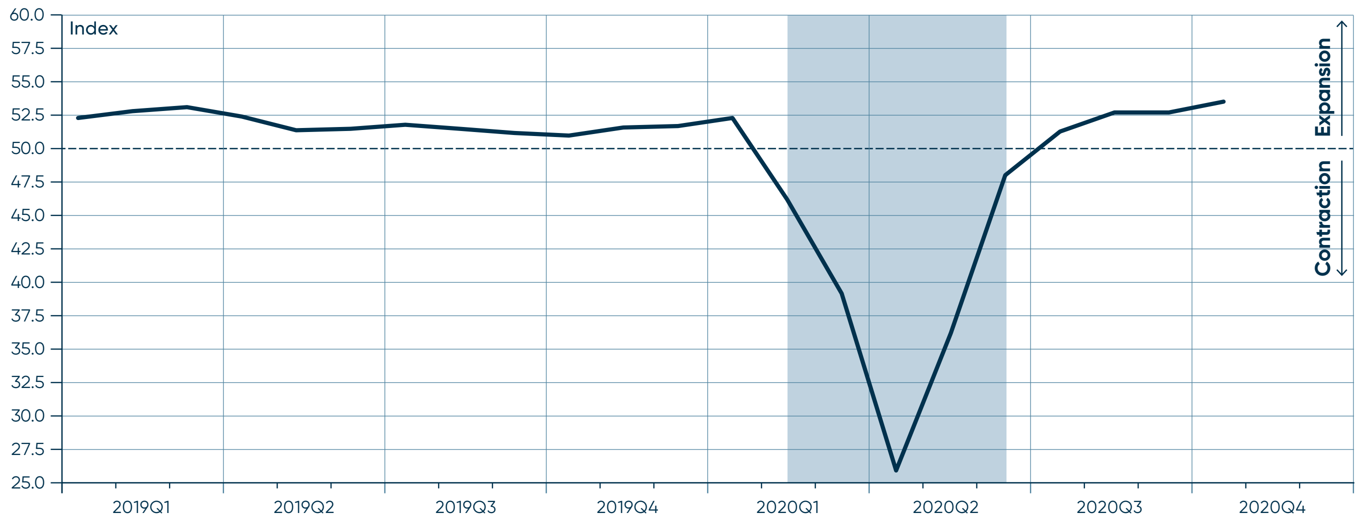
December 2020
Building your financial future

Investment Strategy

World

As expected, the global economy rebounded strongly in Q3. As some sectors of the economy reopened, a solid rebound was to be expected, the more so because of demand pent up during the spring shutdowns. The bounceback was also fuelled by substantial government assistance to businesses and to household incomes. But there is still a long way to go, and global growth is likely to be much slower in Q4 as many countries deal with a marked resurgence in new cases of COVID-19. Fortunately, information that vaccines to fight the pandemic may become available over the next few months makes us more optimistic for the future. We are thus raising our forecast for next year from +5.2% to +5.4%.

World: Private sector activity continues to expand
Markit Flash composite PMI



NBF Economics and Strategy (Source: Markit via Refinitiv)

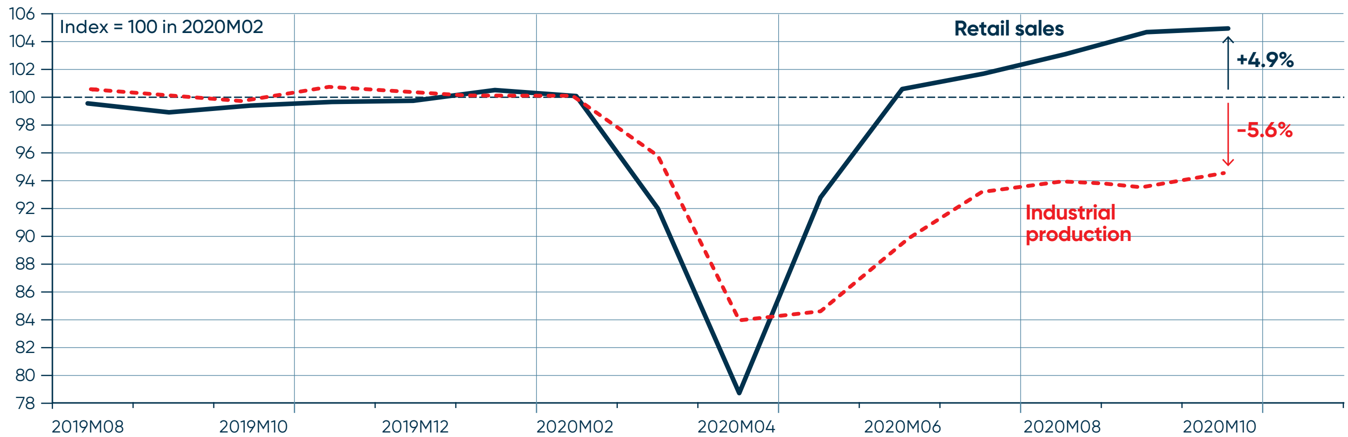
NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

In this issue

United States

Several indices show that the private sector experienced a strong expansion in October. Looking to the coming year, the vigour of the economic recovery will depend largely on decisions taken in Washington. The Democrats' capture of the White House might have resulted in a larger fiscal stimulus package, that party having recently shown itself more inclined to loosen the purse strings. But the likelihood that the Republicans will retain control of the Senate is a fly in that ointment. Despite some shortcomings, the fiscal stimulus to come is likely to support household consumption in the first half of 2021, especially since the economy might get a boost from an efficient vaccine against the coronavirus. With vaccine developments proceeding slightly faster than we expected, we are changing our growth forecast for 2021 from +3.2% to +3.8%.

United States: Household spending suggests higher production
Industrial production and retail sales. Last observation October 2020

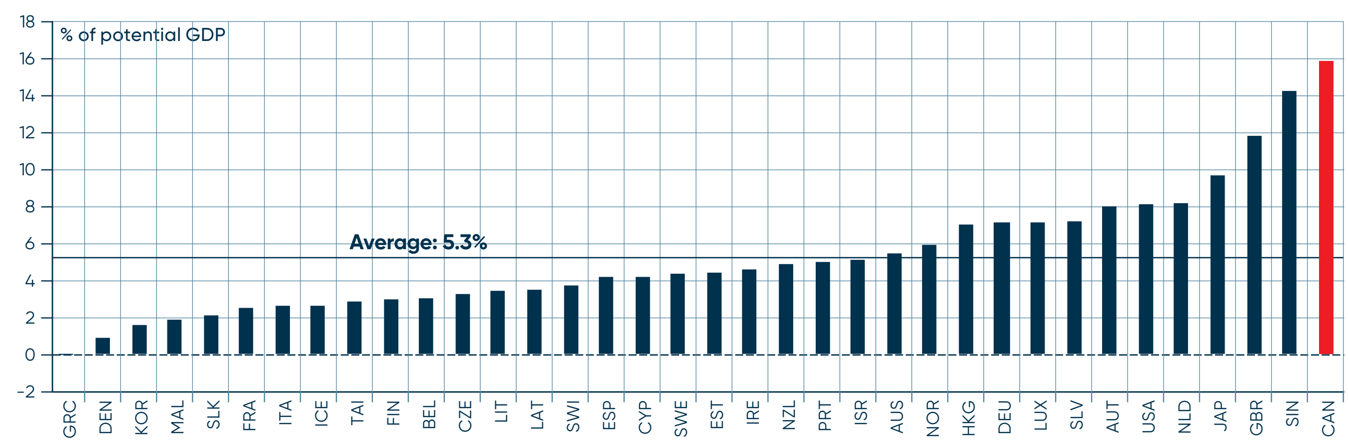


NBF Economics and Strategy (data via Refinitiv)

Canada

Recent data from the IMF are eloquent: the governments of Canada and its central bank have intervened in the economy with exceptional force in 2020. The IMF estimates the change in the structural budget balance—a measure of the size of the fiscal stimulus—at 16% of potential GDP, the largest ratio in the developed economies and three times the average. The vigour of the economic rebound fuelled by this extraordinary support has has been surprising. Despite the unprecedented upheavals due to the pandemic, the recovery is ahead of the rebound from the last recession at this point, having taken GDP to within 4% of the February peak. Despite a probable downshift in the short term, we are keeping our growth scenario at 4.3% in 2021 given that there is now a light at the end of the tunnel (i.e., a vaccine), which could support business and consumer confidence.

Canada's fiscal stimulus the largest of the developed countries
2020 fiscal stimulus (defined as change in structural budget balance as % of potential GDP)



NBF Economics and Strategy (data via IMF)

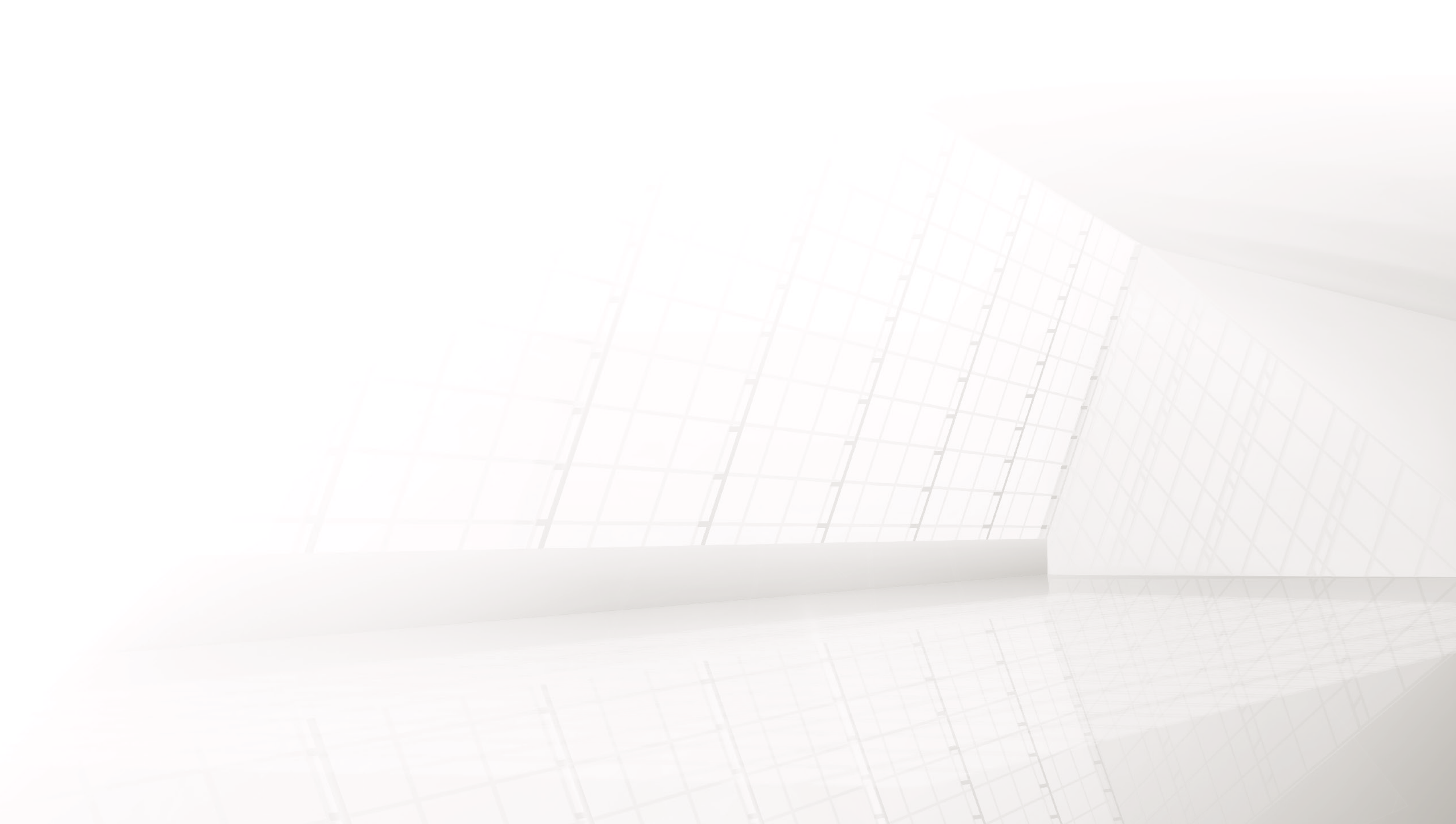
Investment Strategy

What a year it has been! After a start marked by the emergence of a global pandemic and the fastest stock market plunge in history, 2020 ended with a third consecutive quarter of strong gains for risk assets. High volatility persisted throughout these last three months—especially in the face of new containment measures enforced in several developed countries—, but the easing of two major sources of uncertainty sparked a wave of optimism by the year's end. First, the results of the U.S. elections. A Democrat president faced with a (very likely to be) Republican-controlled Senate heralds no major changes for corporate taxes, as well as better predictability with regards to policy-making, something that markets have missed over these past four years. Second, and more importantly, the announcement of a series of highly effective vaccines. Thankfully, these discoveries promise an end to the pandemic in a future much closer than could initially have been hoped for.

As a result, portfolio returns in 2020 have generally been positive, with falling interest rates leading to significant gains for fixed-income assets while supporting the economic and stock market recovery. There are many lessons to be learned from what we have experienced over the past twelve months, but if there is one that concerns all investors, it is the importance to stay the course when fear takes hold of markets. It's a message we can't repeat often enough, and 2020 acted as the ultimate example. Of course, this is also a powerful reminder that every year brings surprises that are, by definition, impossible to predict. Well aware of this reality, our objective is never to perfectly predict the future, but rather to formulate rational hypotheses in light of currently available information, in all humility, and in accordance with our investment process. This approach allowed us to benefit from the recovery in the second half of the year, as we advocated an overweight position in equity markets with a bias toward emerging markets, the top-performing region over the period. But after such a strong rebound, what can we expect for 2021?

In short, we should see the new business cycle carry on, strengthened by the gradual inoculation of the world's population and supported by monetary conditions arguably more accommodative than ever before. Overall, valuations continue to favour stocks, especially when compared to the low expected return on traditional bonds. We recognize that high optimism limits the potential for significant gains in the short term, but we do not see this as a major threat as it does not seem excessive following the unprecedented nature of recent developments. In terms of key risks to our baseline scenario, we will need to monitor the speed at which COVID-19 immunization occurs, as well as the trajectory of inflation, and the policies put forward by the new U.S. administration. All in all, this background argues in favour of a pro-risk stance, which we plan to gradually increase over the course of the year as opportunities arise.

In terms of leadership within the stock market, we don't expect 2020 outperformers such as large technology companies to do poorly, but they should nonetheless yield their place at the top of the podium to stocks more exposed to global growth. Geographically, we continue to expect emerging markets to be the main beneficiaries of a cyclical recovery environment featuring depreciation of the U.S. dollar. As for the Loonie, it is reasonable to assume that it will appreciate modestly over the next 12 months, but we continue to view the currency more as an effective diversification tool, a feature it has brilliantly demonstrated over the past year.



MODEL PORTFOLIOS

Income Portfolio	Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Investor Profile: You want to preserve your capital or establish a source of periodic income to finance ongoing expenses. You do not find the stock market very attractive because of its volatility, but you are not against the idea of investing a small part of your portfolio in stocks, mainly to counteract the effects of inflation. Your tolerance for risk is low.	Cash equivalents	0% to 20%	5.0%	4.0%	-1.0%
	Fixed income (duration: 6 years)[1]	60% to 100%	70.0%	67.5%	0.0%
	Canadian equities	0% to 30%	8.0%	9.0%	0.0%
	U.S. equities		8.0%	9.5%	0.0%
	Foreign equities		4.0%	5.0%	1.0%
	Alternative investments[2]	0% to 20%	5.0%	5.0%	0.0%
Conservative Portfolio					
Investor Profile: On the whole, you want your portfolio invested in fixed-income securities. Although you can tolerate limited volatility to ensure that your assets will grow, you prefer having a portfolio consisting mainly of fixed-income investments for reasons of stability. Your tolerance for risk is low.	Cash equivalents	0% to 20%	5.0%	3.5%	-1.5%
	Fixed income (duration: 6 years)[1]	45% to 80%	55.0%	52.5%	0.0%
	Canadian equities	20% to 45%	14.0%	15.0%	0.0%
	U.S. equities		14.0%	15.5%	0.0%
	Foreign equities		7.0%	8.5%	1.5%
	Alternative investments[2]	0% to 20%	5.0%	5.0%	0.0%
Balanced Portfolio					
Investor Profile: You give equal importance to achieving growth in your investments and receiving income. You can tolerate moderate changes in market value to ensure growth, but you prefer having a mix of fixed-income investments and equities for reasons of stability.	Cash equivalents	0% to 20%	5.0%	3.0%	-2.0%
	Fixed income (duration: 6 years)[1]	30% to 65%	40.0%	37.0%	0.0%
	Canadian equities	30% to 65%	18.0%	19.0%	0.0%
	U.S. equities		18.0%	20.0%	0.0%
	Foreign equities		9.0%	11.0%	2.0%
	Alternative investments[2]	0% to 25%	10.0%	10.0%	0.0%
Growth Portfolio					
Investor Profile: Your main goal is capital growth. Although you can tolerate greater volatility in order to increase the value of your assets, you are not prepared to invest your entire portfolio in stocks. Your tolerance for risk is high.	Cash equivalents	0% to 25%	5.0%	3.0%	-2.0%
	Fixed income (duration: 6 years)[1]	20% to 45%	30.0%	27.5%	0.0%
	Canadian equities	40% to 75%	22.0%	23.0%	0.0%
	U.S. equities		22.0%	23.5%	0.0%
	Foreign equities		11.0%	13.0%	2.0%
	Alternative investments[2]	0% to 25%	10.0%	10.0%	0.0%
Maximum Growth Portfolio					
Investor Profile: You want to maximize the eventual return on your capital by investing all or most of your portfolio in the stock market. In doing so, you accept higher volatility of your investment returns in the hope that these returns will ultimately be higher. Your tolerance for risk is high.	Cash equivalents	0% to 30%	5.0%	3.0%	-2.0%
	Fixed income (duration: 6 years)[1]	0% to 30%	15.0%	12.5%	-0.5%
	Canadian equities	55% to 100%	26.0%	27.0%	0.0%
	U.S. equities		26.0%	27.5%	0.0%
	Foreign equities		13.0%	15.0%	2.5%
	Alternative investments[2]	0% to 30%	15.0%	15.0%	0.0%

1 FTSE TMX Canada Universe Index
2 Includes hedge funds, global infrastructure and gold

FORECAST

	2018	2019	Forecast 2020	Forecast 2021
Gross Domestic Product %				
Canada	2.4	1.9	-5.6	4.3
U.S.	3.0	2.2	-3.5	3.8
Inflation %				
Canada	2.3	1.9	0.7	2.0
U.S.	2.4	1.8	1.2	2.2

	December 2020 Canada	December 2020 U.S.	June 2021 Canada	June 2021 U.S.	December 2021 Canada	December 2021 U.S.
Rate %						
Short-term rates (T-bills, 91-day)	0.15	0.10	0.20	0.10	0.20	0.10
10-year bond yields	0.75	0.95	0.85	1.10	1.00	1.25
30-year bond yields	1.30	1.65	1.35	1.80	1.45	1.85
Canadian Dollar	US $0.78		US $0.79		US $0.81	